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Citrus

PRELIMINARY REVIEW OF MY 1998

MAY, 1999

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Report Highlights:

Sweetie exports to Japan dropped sharply both in quantity and price in MY 1998. Israel's citrus production in MY 1998 is estimated at 770,000 mt, half the level achieved in the previous decade. Exports fell to 270 thousand metric tons. Exporters eye the neighboring markets of the Middle East as a promising export target.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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Executive Summary

Estimated citrus production in marketing year (MY) 1998 (October, 1998 - September, 1999) is approximately ten percent below the previous year's total: 770,000 mt. In the mid eighties the citrus sector produced as much as 1.5 million mt. The major factor in this year's decline was a heat wave which hit at the peak of the flowering period in April 1998, causing massive flower drop in all species except the mandarines and clementines(easy peelers). Growers were partly compensated by increased fruit size, caused by the reduction in yields, and by 5 - 7 percent increases in local currency prices in Israel's main citrus markets of Europe. Strengthening of European currencies vis a vis the dollar, accompanied by a devaluation of the new sheqel (ns), provided growers with a sheqel income only slightly lower than in MY1998. On the debit side, lack of precipitation increased the amounts of irrigation water used, raising production costs and reducing profits.

MY 1998 is characterized throughout the region as one of the driest in the last sixty years. As all citrus in Israel is irrigated, the drought in itself should not affect production in MY 1999 unless the expected significant cuts in irrigation quotas deprive the trees of the moisture necessary to retain the developing fruit and allow it to reach the necessary size. The government has recommended - in global terms - a forty percent cut in irrigation allocations. This will be unacceptable to fruit producers. Thus, cuts may be more severe on annual crops such as cotton, vegetables and forage, and allow for the need to maintain tree plantations by providing quotas which will prevent the infliction of long term damage on the fruit trees.

The economic crises of countries of the Far East, especially Japan, deflated the hopes of Israeli citrus exporters who are striving to develop this market as a substitute for the European market where competition with Spain and Morocco is becoming increasingly difficult. Japan sharply reduced imports of Israeli Sweeties, cutting quantities by close to thirty percent and reducing prices significantly.

A recent study designed to diagnose the illness of Israel's citrus sector indicates that an extended trial probe of the markets of neighboring countries to the east could prove interesting in terms of volumes and outlets for fruit of lower quality than generally required by European and Asian markets.

Production

Summary Table of Citrus Production and Disposition: MY 1997 - MY 1999
Thousands of Metric Tons

Species	Year	Production	Exports	Processing	Consumption
Oranges	1997	394	142	157	110
	1998	330	110	130	75
	1999	390	130	150	100
Grapefruit	1997	357	137	206	19
	1998	306	123	165	15
	1999	335	135	170	25
Easy Peelers	1997	119	45	42	32
	1998	138	32	51	48
	1999	127	54	33	33
Lemons	1997	17	1	1	15
	1998	15	1	1	13
	1999	18	1	2	15
Other	1997	8	6	0	2
	1998	6	4	0	2
	1999	8	6	0	2
Total Citrus	1997	892	331	406	178
	1998	795	270	347	178
	1999	872	330	350	192

MY 1999 is characterized by the most severe drought Israel and its neighbors have experienced in the past sixty years. Meteorological observations indicate that precipitation varied from 30 to 65 percent of the long term average, depending on the region. The effect on the already over taxed aquifer has been serious and the government recommends cutting Israel's agricultural water quotas by an average of forty percent. Of course, in the case of fruit farms, such drastic reductions would do long term damage to the plantations. Alternative proposals include auctioning of water quotas and allocating quantities among subsectors according to the irrigation water's shadow price in the economy. At this writing (April, 1999), the issue is still under discussion; farmers demand compensation prior to implementation of the emergency policy, for any cuts in their irrigation

quotas. Any effective cut in water allocations will reduce farmers' earning potential, hence the demand for compensation. With respect to this year's income, without a doubt, even if the lack of precipitation has not reduce yields, in most regions the April 1998 heat wave did. Also, the additional irrigations required at critical points in the crop's growing cycle will have seriously reduced the profitability of MY 1998's crop.

Consumption

Domestic consumption of fresh fruit did not fall as far as might be expected, given the decline in yields. This was mainly due to the extremely low prices paid by industry on fruit for processing. Many growers picked their fruit and sent it directly to the open markets and neighborhood fresh produce stores, bypassing the packing houses which in some cases charged more to handle the fruit than was paid by the processors for export culls. The influx of more than one million immigrants from the former Soviet Union at the beginning of the decade boosted the demand for citrus, especially for fresh oranges and easy peelers. In their countries of origin these were considered something of a luxury. In Israel, fresh oranges are available at one-third to one-half the price of apples and pears which are also popular with the eastern Europeans.

Generally, some 40 percent of production is sold for processing. This may be from the packing house, as culls unfit for export or for the domestic market or, in cases where the grower considers fruit quality (i.e. export packing proportion) to be unsatisfactory, he may decide to pick the entire crop for processing, thus saving the \$50/mt packing house charge. The number of citrus processing plants has shrunk in the course of the decade, from twelve at the end of the eighties, to four plants at present.

Prices offered by processors in MY 1998 were set as follows:

Grapefruit (red and white) -	\$50/mt	Shamouti oranges -	\$80/mt
Valencia lates	- \$90 - \$100/mt.		

The investigative committee stressed the need to find a long term arrangement between growers and processors which would enable them to maintain a stable flow of product. The committee's proposal involved development of a price determination method based on international citrus concentrate prices. The growers had indicated that the prices offered by the processors in recent years made it uneconomical to pick the fruit and in a growing number of groves it was possible to observe in recent seasons that the farmer had left the fruit on the tree. The scarcity was felt among the processors and was a main factor in the shutting down of the smaller plants.

Trade

The sharp decline in production was followed by a similar drop in exports. At this stage of the season it is not possible to obtain export data by destination. The following table provides export figures by species. It indicates that shipments of several varieties have declined by 20 percent and more. Total orange shipments in MY 1998 were one-third below those of MY 1996, while grapefruit exports recovered to 1996/97 levels, after having dropped ten percent in MY 1997. Sweetie shipments, the majority of which go to Japan, fell 27 percent and sold at significantly lower prices than in previous years.

Fresh Citrus Exports by Main Groups - October, 1998 - April, 1999
Thousands of Boxes

Variety	MY 1998	MY 1997	MY 1996	% change 1998/1997	% change 1998/1996
Oranges:					
Shamouti	4,939	6,327	7,323	-22	-33
Valencia	1,290	1,370	1,732	- 6	-25
Navels, Trovita	251	468	698	-46	-64
Total Oranges	6,480	8,165	9,753	-21	-34
Grapefruit					
White	1,818	1,930	2,121	- 6	-14
Red Blush	46	55	214	-16	-79
Sunrise	4,105	4,630	3,394	-11	+21
Ray Ruby	46	157	147	-71	-69
Total Grapefruit	6,015	6,772	5,876	-11	+ 2
Sweetie	1,425	1,953	1,784	-27	-20
Easy Peelers	2,218	3,877	3,605	-43	-38
Lemons	29	74	156	-61	-81
Others	735	843	767	-13	- 4
Total	16,902	21,684	21,941	-22	-23

Source: Citrus Marketing Board of Israel.

Prices for most varieties were better (in terms of the currencies of the markets) than in previous years and a devaluation of 15 - 20 percent in the new sheqel (at the end of April, 1999 \$1.00 = ns 4.15) helped increase grower sheqel revenues.

Upwards of 60 percent of all shipments were destined for the EU. This worries producers who see competition from Spain and Morocco increasing in the foreseeable future. They would like to develop markets elsewhere, and especially in the Far East and the Middle East, around the Arabian Gulf and neighboring countries.

The following table indicates the main varieties going to the European Union, and their share in total shipments of the variety.

Citrus Exports to the European Union in MY 1998 (October 1998 - April 1999)
Metric Tons

Variety	Total Exports	Of which: to EU	% of Variety MY '98	% of Variety MY '97
Oranges	98,418	73,000	74	80
Grapefruit				
White	26,458	14,253	54	94
Red	64,049	34,533	54	77
Total	90,507	48,786	54	82
Sweetie	19,694	6,693	34	10
Easy Peelers	29,417	19,378	66	70
Lemons	309	191	62	60
Others	4,495	2,293	51	63
Total	242,840	150,341	62	73

Source: Citrus Marketing Board of Israel (Preliminary).

Policy

In the course of the year a government committee was appointed to propose policy adjustments to assist Israel's 4,000 producers to weather the economic difficulties experienced in the past two marketing seasons: MY1997 and MY 1998. In fact, the sector has suffered for most of the years of this decade - both from natural disasters and from marketing failures. The committee's main recommendations include:

1. provision of government assistance to help farmers regraft and improve the present variety mix which does not have an attractive enough selection of easy peelers and other more popular types than are found in the export basket of Israel's competitors;
2. encouragement of the export companies, which almost unanimously take the growers' fruit on consignment, to provide fuller information on their handling, shipping and marketing costs;
3. encouragement of farmers to merge and cultivate small production units jointly to achieve sufficiently large units which can enjoy economies of size and technology;
4. development of markets among neighboring countries to the east of Israel, where there is a sizable demand for citrus.
5. development of a pricing for the fruit delivered to the processors, which will link the price paid by the factory to the price it receives for the citrus products. The committee also suggested the possibility of merging the Citrus Marketing Board of Israel with the Citrus Products Marketing Board. This would emphasize the strong ties between production, fresh export and production and marketing of citrus products.

The committee examined the variety or species mix of Israel's citrus sector, with a view to obtaining a combination of species and varieties which would enable the sector to develop in all three key directions: fresh domestic consumption and exports to Europe and the Far East, with a possibility of developing a market in the

Arabian Gulf and neighboring countries of the Middle East, and exports of citrus products..
The preliminary recommendations were as shown in the table below. Area figures are in hectares (ha).

Variety	Area in 1998	% of Total	Recommendation	Percent of Area
Oranges Total	9,600	39.5	8,350	33.7
Shamouti	5,600	23.0	6,150	24.8
Valencia	2,900	11.9	1,000	4.1
Other	1,100	4.5	1,200	48.8
Grapefruit Total	9,700	39.9	7,050	28.5
White	3,900	16.0	2,500	10.1
Red/Pink	3,700	15.2	2,250	9.1
Sweetie	2,100	8.6	2,300	9.3
Easy Peelers	5,000	20.6	9,300	37.6
Grand Total	24,300	100.0	24,700	100.0

Source: Ministry of Agriculture, Investigative Committee on the State of the Citrus Sector - 1999.

Marketing

Israel's citrus marketing problems are many. Competition from Spain and Morocco in the European market, and the economic and financial crises of the Far East, especially Japan, with respect to Sweetie are the most pressing. Israel's R&D has been unsuccessful over the past twenty years in producing new, marketable varieties. This is especially true of the easy peeler group where today one or two new varieties are undergoing market testing and have begun to arouse hopes among exporters.

Quality is a key issue. Maintenance of the Jaffa trade mark is a major function of the Citrus Marketing Board of Israel (CMBI). It realizes the value of the trade mark, especially in Europe, and requires exporters who wish to use the trade mark to maintain strict quality standards. A significant portion of R&D funds is devoted to agronomic and post harvest practices which will ensure that fruit reaching the markets is of the highest quality attainable. As part of this effort, product differentiation is created and the best of the top grade Shamouti, for example, are presented as a special category which fetches a premium.

Israel's Sweetie market in Japan is proving increasingly problematic over recent years, as prices drop from season to season. The Asian financial crises caused an even steeper decline in MY 1998 prices than had occurred in previous years. Consequently, shipments dropped by close to 30 percent, from 1.95 to 1.42 million boxes. Whereas in MY 1997 and before, some 90 percent of all sales were to Japan, in MY 1998 30 percent were shifted to Europe. There had also been plans to begin a marketing campaign in Korea, however the economic crisis reduced demand and shippers decided to reconsider the approach to this new and potentially lucrative market.

The table below provides an idea of the main types of citrus products and packaging exported by Israeli processors:

Exports of Israeli Citrus Products in CY 1997 by Type of Product and by Package Size
Thousands of Dollars

	Unconcentrated Consumer Pkg.	Unconcentrated Industrial Pkg.	Concentrated Consumer Pkg.	Concentrated Industrial Pkg.	Total
Orange Juice Frozen					
Unsweetened	0	241	127	1,893	2,261
Sweetened	0	0	0	836	836
Other Frozen					150
Total Frozen	0	241	127	2,729	3,247
Unfrozen					
Unsweetened	10,635	5,422	5,190	5,858	27,105
Sweetened	78	0	0	476	554
Other Unfrozen					187
Total Unfrozen	10,713	5,422	5,190	6,334	27,846
Grapefruit Juice					
Unsweetened	6,749	8,230	381	10,492	25,851
Sweetened	0	0	18	373	391
Other					30
Tot. Grapefruit	6,749	8,230	399	10,865	26,273
Lemon Juice					
Unsweetened	82	0	12	986	1,080
Sweetened	25	0	0	0	25
Total Lemon	107	0	12	986	1,105
Other Citrus					
Unsweetened	831	0	231	2,059	3,121
Grand Total	18,400	13,893	5,959	22,973	61,592

The majority of Israel's citrus products are sold unsweetened and apparently as raw material for industries in the countries of purchase. Some of the buyers are bottlers and packers, others manufacture a wide range of citrus beverages and other products. In contrast, unfrozen orange juice is shipped in relatively large quantities in consumer packs of less than 2 liters, both concentrated and unconcentrated.

PSD Table						
Country:	Israel					
Commodity:	Oranges					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin		10/1997		10/1998		10/1999
Area Planted	10600	10600	10500	10500	0	10000
Area Harvested	10300	10300	10400	9900	0	9900
Bearing Trees	0	0	0	0	0	0
Non-Bearing Trees	0	0	0	0	0	0
TOTAL No. Of Trees	0	0	0	0	0	0
Production	397	394	340	330	0	390
Imports	15	15	0	0	0	0
TOTAL SUPPLY	412	409	340	330	0	390
Exports	140	142	147	110	0	130
Fresh Dom. Consumption	110	110	75	90	0	110
Processing	162	157	118	130	0	150
TOTAL DISTRIBUTION	412	409	340	330	0	390

PSD Table						
Country:	Israel				Degrees Brix	Single Strength
Commodity: Orange Juice						
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin		10/1997		10/1998		10/1999
Deliv. To Processors	162	157	118	130	0	150
Beginning Stocks	9	9	8	5	3	0
Production	98	96	79	96	0	94
Imports	45	45	45	50	0	61
TOTAL SUPPLY	152	150	132	151	3	155
Exports	110	110	99	115	0	110
Domestic Consumption	34	35	30	36	0	37
Ending Stocks	8	5	3	0	3	8
TOTAL DISTRIBUTION	152	150	132	151	3	155

PSD Table						
Country:	Israel					
Commodity:	Fresh Grapefruit					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin		10/1997		10/1998		10/1999
Area Planted	7700	7700	7500	7500	0	7500
Area Harvested	7000	7000	7200	7200	0	7200
Bearing Trees	0	0	0	0	0	0
Non-Bearing Trees	0	0	0	0	0	0
TOTAL No. Of Trees	0	0	0	0	0	0
Production	352	357	336	306	0	335
Imports	5	5	0	0	0	0
TOTAL SUPPLY	357	362	336	306	0	335
Exports	137	137	147	123	0	135
Fresh Dom. Consumption	12	19	18	18	0	30
Processing	208	206	171	165	0	170
TOTAL DISTRIBUTION	357	362	336	306	0	335

PSD Table						
Country:	Israel				Degrees Brix - Single Strength	
Commodity:	Grapefruit Juice					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin		10/1997		10/1998		10/1999
Deliv. To Processors	208	206	171	165	0	170
Beginning Stocks	13	13	2	1	0	0
Production	112	103	87	84	0	85
Imports	10	15	20	25	0	30
TOTAL SUPPLY	135	131	109	110	0	115
Exports	116	113	94	95	0	98
Domestic Consumption	17	17	15	15	0	17
Ending Stocks	2	1	0	0	0	0
TOTAL DISTRIBUTION	135	131	109	110	0	115

PSD Table						
Country:	Israel					
Commodity:	Fresh Tangerines					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin		10/1997		10/1998		10/1999
Area Planted	5230	5700	5600	6000	0	6300
Area Harvested	3780	4100	4250	3700	0	4350
Bearing Trees	0	0	0	0	0	0
Non-Bearing Trees	0	0	0	0	0	0
TOTAL No. Of Trees	0	0	0	0	0	0
Production	117	119	109	138	0	127
Imports	0	0	0	0	0	0
TOTAL SUPPLY	117	119	109	138	0	127
Exports	47	45	46	32	0	54
Fresh Dom. Consumption	28	32	32	55	0	40
Processing	42	42	31	51	0	33
TOTAL DISTRIBUTION	117	119	109	138	0	127

PSD Table						
Country:	Israel					
Commodity:	Fresh Lemons					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin		10/1997		10/1998		10/1999
Area Planted	1300	1300	1300	1100	0	1200
Area Harvested	1000	1000	1050	1050	0	1150
Bearing Trees	0	0	0	0	0	0
Non-Bearing Trees	0	0	0	0	0	0
TOTAL No. Of Trees	0	0	0	0	0	0
Production	20	17	17	15	0	18
Imports	0	0	0	0	0	0
TOTAL SUPPLY	20	17	17	15	0	18
Exports	1	1	1	1	0	1
Fresh Dom. Consumption	17	15	15	13	0	15
Processing	2	1	1	1	0	2
TOTAL DISTRIBUTION	20	17	17	15	0	18

PSD Table						
Country:	Israel					
Commodity:	Fresh Citrus,Other					
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin		10/1997		10/1998		10/1999
Area Planted	1800	1800	1700	1700	0	1600
Area Harvested	1100	1200	1200	1270	0	1200
Bearing Trees	0	0	0	0	0	0
Non-Bearing Trees	0	0	0	0	0	0
TOTAL No. Of Trees	0	0	0	0	0	0
Production	9	8	7	6	0	8
Imports	0	0	0	0	0	0
TOTAL SUPPLY	9	8	7	6	0	8
Exports	5	6	5	4	0	6
Fresh Dom. Consumption	3	2	1	2	0	2
Processing	1	0	1	0	0	0
TOTAL DISTRIBUTION	9	8	7	6	0	8